

**EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2012**

# **EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION**

## **TABLE OF CONTENTS**

Independent Audit Report .....	1
Balance Sheet December 31, 2012 .....	2
Statement of Revenues & Expenses and Changes in Fund Balance For the Year Ended December 31, 2012 .....	3
Statement of Cash Flow For the Year Ended December 31, 2012 .....	4
Schedule of Operating Fund Expenses For the Year Ended December 31, 2012 .....	5
Notes to Financial Statement .....	6 – 9

# **PURDY & COMPANY**

## **CERTIFIED PUBLIC ACCOUNTANT**

### **Independent Auditors' Report**

To the Board of Directors  
Eucalyptus Grove Homeowners' Association

We have audited the accompanying financial statements of Eucalyptus Grove Homeowners' Association which comprise the balance sheet as of December 31, 2012, and the related statements of revenues, expenses, and changes in fund balance and cash flows for the year then ended, and the related notes to the financial statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eucalyptus Grove Homeowners' Association as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Purdy & Company  
Westlake Village, CA  
February 26, 2013



# EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

## BALANCE SHEET DECEMBER 31, 2012

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
<b>ASSETS</b>			
Cash - Operating	\$3,945		\$3,945
Community West Bank-Money Market		\$209,145	209,145
Community West Bank-CDARS		1,135,000	1,135,000
Assessments Receivables-Net	13,721		13,721
Prepaid Insurance	48,545		48,545
Prepaid Taxes		46	46
<b>TOTAL ASSETS</b>	<u><u>\$66,211</u></u>	<u><u>\$1,344,191</u></u>	<u><u>\$1,410,402</u></u>
<b>LIABILITIES</b>			
Accounts Payable	\$11,348		\$11,348
Prepaid Assessments	6,080		6,080
<b>TOTAL LIABILITIES</b>	<u><u>17,428</u></u>	<u><u>0</u></u>	<u><u>17,428</u></u>
<b>FUND BALANCES</b>	48,783	1,344,191	1,392,974
<b>TOTAL LIABILITIES &amp; FUND BALANCES</b>	<u><u>\$66,211</u></u>	<u><u>\$1,344,191</u></u>	<u><u>\$1,410,402</u></u>

See Accountant's Audit Report.

The accompanying notes are an integral part of these financial statements.

# EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

## STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
<b>REVENUES</b>			
Member Assessments	\$815,795		\$815,795
Interest		\$4,448	4,448
Late Charges	5,537		5,537
Miscellaneous	2,178		2,178
 <b>TOTAL REVENUES</b>	 <u><b>823,510</b></u>	 <u><b>4,448</b></u>	 <u><b>827,958</b></u>
<b>EXPENSES</b>			
Operating & Income Taxes	267,583	994	268,577
Administrative	138,794		138,794
Reserve Expenses		494,873	494,873
 <b>TOTAL EXPENSES</b>	 <u><b>406,377</b></u>	 <u><b>495,867</b></u>	 <u><b>902,244</b></u>
Excess (deficiency) of revenues over expenses	417,133	(491,419)	(74,286)
Beginning fund balances	73,213	1,394,047	1,467,260
Transfer into (out of) funds	(441,563)	441,563	0
 <b>ENDING FUND BALANCES</b>	 <u><b>\$48,783</b></u>	 <u><b>\$1,344,191</b></u>	 <u><b>\$1,392,974</b></u>

See Accountant's Audit Report.

The accompanying notes are an integral part of these financial statements.

# EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

## STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Excess Revenues over (Expenses)	\$417,133	(\$491,419)	(\$74,286)
Adjustments to reconcile Excess Revenue to net cash provided by operating activities:			
Reserve Expenses		494,873	494,873
(Increase) Decrease in Current Assets:			
Assessments Receivable	19,999		19,999
Prepaid Insurance	168		168
Prepaid Taxes		373	373
Increase (Decrease) in Current Liabilities:			
Accounts Payable	3,168		3,168
Prepaid Assessments	40		40
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>440,508</b></u>	<u><b>3,827</b></u>	<u><b>444,335</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Reserve Expenditures		(494,873)	(494,873)
<b>NET CASH (USED) BY INVESTING ACTIVITIES</b>		<u><b>(494,873)</b></u>	<u><b>(494,873)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Transfer to Reserve Fund	(441,563)	441,563	0
<b>NET CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES</b>	<u><b>(441,563)</b></u>	<u><b>441,563</b></u>	<u><b>0</b></u>
<b>NET INCREASE (DECREASE) IN CASH</b>	<u><b>(1,055)</b></u>	<u><b>(49,483)</b></u>	<u><b>(50,538)</b></u>
<b>CASH &amp; EQUIVALENTS AT BEGINNING OF YEAR</b>	<u><b>5,000</b></u>	<u><b>1,393,628</b></u>	<u><b>1,398,628</b></u>
<b>CASH &amp; EQUIVALENTS AT END OF YEAR</b>	<u><b>3,945</b></u>	<u><b>1,344,145</b></u>	<u><b>1,348,090</b></u>
<b>SUPPLEMENTAL DISCLOSURE:</b>			
Income Taxes Paid		\$621	\$621

See Accountant's Audit Report.

The accompanying notes are an integral part of this financial statement.

# **EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION**

## **SCHEDULE OF OPERATING FUND EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2012**

### **OPERATING EXPENSES**

Electricity	\$19,086
Exterminating	2,409
Gas	6,622
Janitorial	13,167
Landscaping & Gardening	74,954
Pool Maintenance & Supplies	13,531
Repairs & Maintenance	68,709
Rubbish Removal	43,020
Supplies	4,909
Telephone	493
Water & Sewer	20,683

### **TOTAL OPERATING EXPENSES**

**267,583**

### **ADMINISTRATIVE EXPENSES**

Audit and Tax Preparation	1,625
Bad Debt Expense	5,692
Insurance	101,831
Management Fees	28,224
Miscellaneous	963
Other Taxes & License	10
Professional Fees	449

### **TOTAL ADMINISTRATIVE EXPENSES**

**138,794**

### **TOTAL OPERATING FUND EXPENSES**

**\$406,377**

See Accountant's Audit Report.

The accompanying notes are an integral part of these financial statements.

**EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2012**

**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

- A. Eucalyptus Grove Homeowners' Association is an Association of 179 units, organized and operated to provide for the management, maintenance and care of Association property and common areas. In addition to such duties, the Association maintains architectural control, enforces its protective restrictions, and promotes the general welfare of the community comprising the Association.
- B. The Association maintains its books and records on the accrual basis of accounting. As a result, revenues are recorded when earned, and expenses are recorded when incurred.
- C. The Association is a not-for-profit organization, which employs a fund method of accounting. The fund method properly accounts for restrictions on the expenditures resulting from actions of the Board of Directors or the Association voting membership.

These financial statements separate funds into two classes. The first is the operating fund; these are funds whose disposition is at the discretion of the Board of Directors and the property manager and are generally used for operating expenses. The second is the unrestricted Reserves; these are to be used for replacement of common area expenditures and may be used for general operating purposes.

It is the Association's policy that any excess funds at the end of the operating year will be allocated to the following year or held as additional funds for the replacement of Association assets.

- D. The Association's checking and savings accounts, as well as its primary accounting records, are maintained by Bartlein & Company, Inc., located in Santa Barbara, California. Bartlein & Company, Inc. has been issued a Fidelity Bond in the amount of \$500,000. The insured party is Bartlein & Company, Inc.
- E. Association members are subject to monthly assessments of \$380. The assessment receivable balance as of December 31, 2012 represents monthly assessments, late fees, fines and other charges due from the homeowners. The Association uses the allowance method to account for uncollectible assessments.
- F. For purposes of the Statement of Cash Flows, the Association considers cash equivalents to be all certificates of deposit with a maturity of up to 24 months.
- G. The Association has used estimates in the preparation of the financial statements to be in conformity with generally accepted accounting principles.



**EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

**NOTE 2 - INCOME TAXES**

Eucalyptus Grove Homeowners' Association files income taxes on a calendar year end. The Association has elected to be taxed as a regular corporation under the provisions of Section 277 of the Internal Revenue Code. Accordingly, the Association has taxable income of \$4,064 Federal income tax liability of \$610 for the year ended.

The Association has been granted a Section 23701 (t) exemption by the State of California. Any income from sources other than membership dues, fees, and assessments (exempt-function income) is taxable if it exceeds \$100 per year. The Association has non-exempt function income of \$4,348. State income tax liability on this income is \$384.

The Association's federal income tax returns for years before 2008 are no longer subject to examination by the Internal Revenue Service.

**NOTE 3 - REPLACEMENT RESERVES**

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations. A formal independent reserve study determines the adequacy or deficiency of the association's actual reserves compared to the calculated reserve requirement. Actual replacement costs and major improvements are utilized to determine the optimum reserve requirement. A reserve study was conducted by the Board of Directors and distributed to the homeowners.

Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components. As of December 31, 2012, the reserves were 83% funded. Actual expenditures and investment income may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The following table is based on the study and presents significant information about the components of common property as of December 31, 2012.

**EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

<b><u>COMPONENT</u></b>	<b><u>EXPECTED DATE DUE</u></b>	<b><u>CURRENT REPLACEMENT COST</u></b>	<b><u>REQUIRED RESERVES 12/31/12</u></b>	<b><u>CURRENT RESERVES 12/31/12</u></b>
Termite Fumigation (Bal)	2013	\$6,100	\$6,100	\$6,100
Gate Operator (Slide)	2013	2,900	2,900	2,900
Paint Exterior (Bal)	2013	120,000	120,000	120,000
Dryrot Repairs (Balance)	2013	50,000	50,000	50,000
Gate Operator (Slide)	2013	2,900	2,900	2,900
Spa Filter	2013	1,300	1,300	1,300
Stair Landing Reseal	2013	15,900	15,900	15,900
Asphalt Seal Coat/Repair	2013	42,800	42,800	42,800
Cabana Water Heater	2013	2,700	2,700	2,700
Mailbox Pagodas	2013	14,300	14,300	14,300
Lights-Street Fixtures	2013	22,800	22,800	22,800
Paint Front Wood Fence	2013	6,700	6,700	6,700
Termite Fumigation (7606)	2014	6,100	5,693	5,693
Tree Trimming	2015	16,800	5,600	5,600
Paint Metal Fence & Rail	2015	6,900	2,300	2,300
Asphalt Overlay	2015	183,600	171,360	171,360
Cabana Floor & Wall Tile	2015	10,600	9,893	9,893
Spa Retile	2015	6,100	5,693	5,693
Stair Rails (3.5')	2015	13,300	12,413	12,413
Cabana Sauna/Bath Rem.	2015	5,100	4,760	4,760
Termite Fumigation (7630)	2015	6,100	5,287	5,287
Paint Wood/Metal Trim	2016	78,500	19,625	19,625
Dryrot Repairs	2016	306,000	76,500	76,500
Pool Filter	2016	1,300	975	975
Pool Heater	2016	3,400	2,380	2,380
Sauna Heater	2016	2,700	2,160	2,160
Spa Heater	2016	3,400	2,125	2,125
Termite Fumigation (7634)	2016	6,100	4,880	4,880
Bridge Repair	2017	11,200	8,213	8,213
Termite Fumigation (7620)	2017	6,100	4,473	4,473
Pool Pump	2018	900	150	150
Paint-Wood Siding	2018	159,100	26,517	26,517
Paint Carports	2018	85,700	14,283	14,283
Spa Pumps	2018	1,700	283	283
Card Readers/Buzzers	2018	4,500	2,625	2,625
Roof-Metal Carport	2018	183,600	153,000	153,000
Termite Fumigation (7632)	2018	6,100	4,067	4,067
Termite Fumigation (7602)	2019	6,100	3,660	3,660
Stair Landing Resurface	2020	45,100	29,315	29,315
Split Rail Fence	2020	6,400	5,120	5,120
Subtotal		1,460,900	871,750	871,750

**EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2012**

<b><u>COMPONENT</u></b>	<b><u>EXPECTED DATE DUE</u></b>	<b><u>CURRENT REPLACEMENT COST</u></b>	<b><u>REQUIRED RESERVES 12/31/12</u></b>	<b><u>CURRENT RESERVES 12/31/12</u></b>
Subtotal		1,460,900	871,750	871,750
Structural Plumbing	2019	612,000	489,600	462,395
Pool Refiberglass	2020	10,200	4,250	0
Termite Fumigation (7610)	2020	6,100	3,660	0
Exercise Room Equipment	2020	7,100	3,313	0
Intercom	2020	4,000	1,867	0
Slide Gates	2021	6,500	4,160	0
Termite Fumigation (7624)	2021	6,100	2,033	0
Termite Fumigation (7636)	2022	6,100	2,033	0
Termite Fumigation (7640)	2023	6,100	2,033	0
Termite Fumigation (7628)	2023	6,100	1,220	0
Siding Replacement	2023	336,600	134,640	0
Termite Fumigation (7626)	2025	6,100	1,220	0
Front Wood Fence	2025	30,600	9,180	0
Pool Tile/Coping	2025	3,500	875	0
Pool Decking	2027	11,200	2,800	0
Sauna Remodel	2028	5,500	1,375	0
Gutters/Downspouts	2028	42,800	15,408	0
Roof Shingle 7626, 30	2028	81,100	22,708	0
Roof Shingle 7624 & 28	2036	54,100	8,656	0
Roof Shingle 7636 & 38	2029	54,100	6,492	0
Roof Shingle 7602, 06	2031	81,100	6,488	0
Roof Shingle 7620, 32	2034	91,800	3,672	0
Foundation Waterproofing	2035	168,300	5,610	0
Metal Pool Fence (6')		10,000	333	0
Totals		<u>\$3,108,000</u>	<u>\$1,605,376</u>	<u>\$1,334,145</u>